

UNNUMBERED LETTERS ISSUED FOR THE MONTH OF JANUARY 2005

Dated	Subject	Distribution
01-06-05	Memorandum of Understanding Executed Between the United States Department of Agriculture – Rural Development and the United States Department of Commerce – Minority Business Development Agency	S/D
01-12-05	Interest Rate Changes for Housing Programs and Credit Sales (Nonprogram)	S/D, RDM, AD
01-14-05	Improper Payment Information Act Compliance Report	S/D
01-28-05	Servicing Requirements for Community Facilities Guaranteed Loans	S/D
01-31-05	Florida Disaster Set Aside Reporting Use of Funds	S/D

January 6, 2005

SUBJECT: Memorandum of Understanding Executed Between the United States  
Department of Agriculture – Rural Development and the United States  
Department of Commerce – Minority Business Development Agency

TO: State Directors, Rural Development

ATTN: Business-Cooperative Program Directors

The purpose of this unnumbered letter is to summarize the Memorandum of Understanding (MOU) executed between the United States Department of Agriculture – Rural Development and the United States Department of Commerce – Minority Business Development Agency (MBDA), and to encourage your collaboration in attaining the desired results.

On June 7, 2004, Gilbert G. Gonzalez, Acting Under Secretary for Rural Development, and Ronald L. Langston, National Director for MBDA, entered into an agreement to spur rural economic development among minority business owners.

The written agreement established the duties and responsibilities of each agency, to work together to provide information to minority business owners about funds available through Rural Development's business and cooperative programs for business financing and technical assistance in rural areas.

Since the agreement has been instituted, both agencies have been diligently working to meet the duties and responsibilities set forth. As a result, we have called upon several individuals in the field for assistance. We appreciate those individuals who have participated in supporting this MOU and encourage those who have not participated to obtain further information about MBDA and possible opportunities to strengthen minority outreach efforts in your State.

MBDA was specifically created to foster the establishment and growth of minority-owned businesses in America. MBDA has a network of Minority Business Development Centers (MBDCs), Native American Business Development Centers (NABDCs),

EXPIRATION DATE:  
December 31, 2005

FILING INSTRUCTIONS:  
Community/Business Programs

Business Resource Centers, and Minority Business Opportunity Committees (MBOCs) located throughout the United States. The MBDA centers are staffed by business specialists and provide minority entrepreneurs with technical assistance to assure adequate financing for business ventures. While MBDA is not a funding source, it does actively coordinate and leverage public and private-sector resources. Additional information on MBDA can be obtained from their website at <http://www.mbda.gov/>.

Using our rural area determination site (<http://maps.ers.usda.gov/loanlookup/viewer.htm>) and information from the MBDA site, we have identified five MBDA centers that are located in rural areas. Namely, they are the South Carolina Statewide MBDC; North Carolina Cherokee NABDC; Minnesota/Iowa NABDC; North/South Dakota NABDC; and South Texas MBOC. While we encourage everyone to explore outreach opportunities available in collaboration with the various MBDA centers, due to logistics and our focus on rural areas, we especially encourage offices in those areas where rural MBDA centers have been identified to make contact to explore outreach opportunities available to our rural minority constituents. Accordingly, any supporting efforts or accomplishments made in accordance with this MOU should be reported.

Additional information regarding the MOU can be found in RD Instruction 2000-SSS. This instruction was issued to implement the MOU. We encourage you to review this MOU and identify ways to work with the MBDA centers to improve delivery of the Rural Development programs.

In the near future, we will be implementing a link to the Business Programs website that will highlight the MOU and planned activities to further promote outreach. Moreover, we are in the process of planning an open listening forum that will be co-sponsored by MBDA and the USDA Office of Small and Disadvantaged Business Utilization. The forum will be held to discuss the challenges Rural Development has in increasing program participation in order to provide economic opportunities to minority and other underserved rural residents and businesses.

If you have any questions, please contact William F. Hagy III, Deputy Administrator, Business Programs, (202) 720-7287.

*(Signed by Peter J. Thomas)*

PETER J. THOMAS  
Administrator  
Rural Business-Cooperative Service

January 12, 2005

**SUBJECT:** Interest Rate Changes for Housing Programs  
and Credit Sales (Nonprogram)

**TO:** Rural Development State Directors,  
Rural Development Managers,  
and Community Development Managers

**ATTN:** Rural Housing Program Director

The following interest rates, effective February 1, 2005, are changed as follows:

<b><u>Loan Type</u></b>	<b><u>Existing Rate</u></b>	<b><u>New Rate</u></b>
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**ALL LOAN TYPES**

Treasury Judgement Rate	2.600%	2.770%
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The current rate shown above is as of the week ending December 31, 2004. The actual judgement rate that will be used will be the rate for the calendar week preceding the date the defendant becomes liable for interest. This rate may be found by going to the Federal Reserve web site for the weekly average 1-year CMT yield ([www.federalreserve.gov/releases/h15/data/wf/tcm1y.txt](http://www.federalreserve.gov/releases/h15/data/wf/tcm1y.txt)).

**RURAL HOUSING LOANS**

Rural Housing (RH) 502		
Low or Moderate	6.000	6.000

**EXPIRATION DATE:**  
February 28, 2005

**FILING INSTRUCTIONS:**  
Administrative/Other Programs

Single Family Housing (SFH) Nonprogram	6.500	6.500
Rural Housing Site (RH-524), Non-Self-Help	6.000	6.000
Rural Rental Housing and Rural Cooperative Housing	6.000	6.000

Please notify appropriate personnel of these rates.

*(Signed by James C. Alsop) for*

RUSSELL T. DAVIS  
Administrator  
Rural Housing Service

Sent by Electronic Mail on 01-13-05 at 8:00 a.m. by PAD.

January 14, 2005

TO: State Directors  
Rural Development

ATTN: Multi-Family Housing Program Directors

FROM: Russell T. Davis (Signed by Russell T. Davis)  
Administrator  
Rural Housing Service

SUBJECT: Improper Payment Information Act Compliance Report

Attached is a copy of the first Multi-Family Housing (MFH) Improper Payment Information Act Report (IPIA) on an audit that was conducted July - September 2004. The Report details the findings and recommendations of the study that was undertaken to determine the error rate of payments in the Rental Assistance (RA) Program.

The report determined that the error rate of gross dollars improperly calculated against the FY 2004 program outlay was 2.59 percent. The Report revealed that subsidy payment calculation errors were made 14.3 percent of the time (6.1 percent on Agency underpayment of subsidy to tenants and 8.2 percent on Agency overpayment of subsidy to tenants) and these errors translated to underpayment of subsidy estimated at \$7.284 million and Agency overpayment of subsidy estimated at \$12.804 million

The study showed that insufficient file documentation was the most common source of all errors, followed by "Other," and then by math or transcription errors. Insufficient file documentation was the major error source (48 percent of instances assigning fault did so for this reason). This lack of documentation did not permit the analyzer to determine the accuracy of the tenant certification. "Other" was cited 22 percent of the time and these reasons were lack of documentation, conflicting documentation and documentation without verification.

As an Agency, we must improve our oversight of borrowers and management agents to ensure tenant incomes are verified with sufficient supporting documentation on which to make such determinations. Additionally, borrowers and management agents must do a better job of securing documentation and verification, and improve the accuracy of their mathematical calculations.

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December 31, 2005

FILING INSTRUCTIONS:  
Housing Programs

In order to improve Agency oversight and reduce the errors committed by borrowers and property agents, the Agency directs the following:

1. Errors found in this analysis must be followed up by Loan Servicers within the next 6 months and achieve resolution. The National Office will provide a list of errors reported by State Offices.
2. The National Office must complete its evaluation and restructuring of the supervisory visit procedure. This procedure is currently cumbersome, time consuming, has the wrong focus and does not obtain adequate information for Loan Servicers to make informed decisions on the operations of a property.
3. State Offices must undertake training of field staff, borrowers and property managers in appropriate, required documentation and follow-up with tenants and income-verifiers.
4. The National Office must pursue access to the HSS New Hires data to be shared with State Offices.
5. Recognizing that the New Hires data access process may take some time. State Offices must participate with available wage matching programs and make such data available to borrowers if permitted. State Office staff must ensure that the shared data is used by borrowers and property managers.
6. The National Office will reissue the Wage Matching Administrative Notice that expired April 30, 2002. States that currently have authority to implement wage matching and have not done so must implement wage matching procedures in their income verification processes; those States without State law prohibiting wage matching must be more aggressive in obtaining authority to use State wage data for wage matching.
7. The National Office will issue a Tenant Income Verification Notice that provides guidance to the State Offices. This notice will address issues identified in this study, in reviews conducted by the General Accounting Office, and in prior Office of Inspector General audits.
8. The National Office must revise the survey instrument used in this study to capture more responsive information.
9. Through implementation of these recommendations, we expect to reduce the error rate below 2.5 percent of program outlays.

We appreciate your assistance in undertaking this audit last summer. The findings from the audit (an error rate above 2.5 percent of program outlays) require that a subsequent audit be conducted each year until the rate falls below 2.5 percent. It will be necessary to utilize field staff once again for this audit. Your office should expect to receive, within the next few weeks, another survey to be completed. Due to deadlines imposed by the Department, the survey will need to be completed by the middle of May 2005. Therefore, it is imperative that the survey is given top priority by your staff.

If you have any questions regarding this memorandum, please contact Ancil Green at 202-690-0760 or Janet Stouder at 202-720-9728.

Attachment

**RURAL DEVELOPMENT**  
**MULTIFAMILY HOUSING PROGRAMS**  
**IMPROPER PAYMENTS INFORMATION ACT COMPLIANCE REPORT**  
**OCTOBER 2004**

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**Purpose**

Congress passed the Improper Payments Information Act in November 2002. It requires Agency financial and program managers to review annually all programs and activities. This review is designed to identify those programs that may be susceptible to significant erroneous payments and report the results in the *Performance and Accountability Report*. The President's Management Agenda includes an initiative to reduce Federal Government erroneous payments.

The Section 521 Rental Assistance Program had program outlays of \$775,400,000 in FY2004. In the Agency's initial risk assessment, the Program was ranked High for potential erroneous payments. This study will serve as the baseline against which future error rates will be measured. Both the Office of the Inspector General (OIG) and the Government Accountability Office (GAO) have recommended steps to reduce waste, fraud and abuse in the Program. The Agency has implemented some actions and plans to implement others soon. The Agency asked the Office of the Inspector General to comment on the methodology and sampling plan used for this report, but they declined and indicated they would provide comments after the report was completed.

**Background**

The Department of Agriculture provides rental assistance subsidies to over a quarter-million households. To qualify for assistance, a household must submit an application to a multifamily borrower or his property management agent. The application process requires that the individual or family provide information on the amount and source(s) of income, which are verified by the property agent. This income determination is the primary determinant of a family's rent charge and, in turn, of the amount of housing subsidy provided.

Errors may occur in documenting income and calculating the tenant rent contribution. Tenants may also deliberately conceal income sources. To the extent that a tenant is incorrectly determined eligible for program assistance or is not charged the correct rent, Federal subsidies are misused.

**Brief Methodology**

The Agency reviewed the sampling plan developed by HUD for its studies and engaged a statistician from USDA's Cooperative and Business Services division to prepare a similar plan for this report. The result of that plan became a sample of 539 rental assistance units from a universe of 269,352, or .2%. This sample produced a study group with a 90% confidence level. The Office of Management and Budget reviewed the sampling plan in May 2004 and found it acceptable. The study was divided into two parts: Part 1 required field staff to evaluate tenant files and income calculations; Part 2 determined if USDA's Rural Development's Deputy Chief Finance Office (DCFO) paid appropriately on the

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borrower's request for subsidy. The statistically-valid sample was used in Part 1 and Part 2 of the study.

**Major Error Findings**

The study determined that the error rate of gross dollars improperly calculated against the FY2004 program outlay was 2.59%. The study revealed that subsidy payment calculation errors were made 14.3% of the time (6.1% on Agency underpayment of subsidy to tenants and 8.2% on Agency overpayment of subsidy to tenants) and these errors translated to underpayment of subsidy estimated at \$7.284 million and Agency overpayment of subsidy estimated at \$12.804 million

The estimated total gross amount of error for rental subsidy payments, \$20.088 million, is 2.59% of the \$775.4 million outlay for FY2004.

Type of Payment Error (Period)	Total Rental Assistance Program *
Gross Error In Subsidy Determinations (2004) Underpayment to tenants	\$7.284
Gross Error In Subsidy Determinations (2004) Overpayment to tenants	\$12.804
Gross Error (overpayment + underpayment)	\$20.088
Billing Error ( 2004) **	---
Total Error	\$20.088
FY 2004 Program Expenditures	\$775.4
Percent of Erroneous Payments	2.59%

\* all values presented in millions

\*\* DCFO reported error of \$0.85; not included.

The errors noted above were the findings of Part 1 of the study to determine if there was administrative error on the part of property managers and if income verifications supported the claims of tenants. Part 2 of the study was to determine if USDA properly paid the appropriate subsidy requested by the Borrower. The DCFO review of a randomly-selected month of payment for each unit identified in the study revealed one error of \$0.85. This error was not caused by an improper payment and was not included in the error rate calculated for this study.

**Sources of Errors**

The error rate identified above was based on calculations of tenant contributions to project income that may be offset or supplemented by Rental Assistance.

The study showed that insufficient file documentation was the most common source of all errors, followed by "Other", and then by math or transcription errors. Insufficient file

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documentation was the major error source (48% of instances assigning fault did so for this reason). This lack of documentation did not permit the analyzer to determine the accuracy of the tenant certification. File documentation is a requirement of the Sections 515, 514 and 516 loan and grant programs. Failure to obtain and maintain such documentation is the fault of the borrower and his management agent.

Not having sufficient documentation was also echoed in the “Other” category identified by respondents. “Other” was cited 22% of the time and reasons in this category included lack of documentation, conflicting documentation, and documentation without verification. Again, resolution and follow-up to these issues at the time of tenant certification or recertification are the responsibility of the borrower.

The third category identified 18% of the time was math and transcription errors by the borrower or the borrower’s management agent. These math errors lead directly to over- and under- calculation of the amount of subsidy required.

### **Recommendations**

The Agency must improve its oversight of borrowers and management agents to ensure that tenant incomes are verified with sufficient supporting documentation on which to make such determinations. Borrowers and management agents must do a better job of securing documentation and verifications and improve the accuracy of their mathematical calculations.

A more comprehensive list of recommendations appears at the end of this report but in summary, the Agency will direct the following:

1. State Offices must undertake training of field staff, borrowers and property managers in appropriate and required documentation and follow-up with tenants and income-verifiers.
2. The National Office must pursue access to the HSS New Hires data to be shared with State Offices.
3. Recognizing that the New Hires data access process may take some time, State Offices must participate with available wage matching programs and make such data available to borrowers if permitted. State Office staff must ensure that this shared data is used by borrowers and property managers.
4. National Office will reissue the Wage Matching Administrative Notice that expired April 30, 2002.

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5. The National Office must complete its evaluation and restructuring of the supervisory visit procedure to strengthen and provide more focus when reviewing tenant files.
6. The National Office will issue a Tenant Income Verification Administrative Notice that provides guidance to the State Offices. This Notice will address issues identified in this study, in reviews conducted by the GAO and in prior OIG audits.
7. The National Office should employ an independent contractor to undertake this study in the future, which should be broader in scope and more comprehensive. An independent contractor will provide objective and impartial analysis. In addition to identifying error rates in other work areas, the contractor should investigate deliberate tenant mis-reporting of income and the accuracy of borrower's subsidy request to the Agency.

### **General Report**

#### **How the USDA Rental Assistance Program Works**

By statute, admission to the Rental Assistance program is restricted to households of "very low-income" and "low-income". The Agency's very low-income standard mirrors that of HUD and is set at 50 percent of area median family income, but is adjusted for family size and for unusually high or low income and housing cost patterns. The maximum total family income for eligibility is set at the low-income standard, which equals 80 percent of the area median family income, adjusted in the same manner as the very low-income limits.

For rent determination purposes, a family's total income is estimated on a prospective basis (i.e., their income at the time of certification or recertification is projected forward for one year). Property management agents are required to verify a tenant's income at least annually, or whenever there is a \$40 monthly increase change or a \$20 decrease change, and whenever requested by the tenant. Rent charges must be revised each time a recertification shows changes in a household's income.

#### **Objectives**

The major objective of this study was to determine the rate of error in the Rental Assistance Program in order to discern the magnitude of overpayments, underpayments and payments made in error. In order to respond to the major objective, the study had to determine answers to the following objectives:

- Was there administrative error on the part of property managers?
- Does income verification support the income claimed by tenant?

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- Did USDA properly pay the appropriate subsidy requested by the borrower?

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**Scope**

In developing the parameters of this study, the Agency reviewed work already completed by HUD. The Department of Housing and Urban Development, with rental subsidy program outlays of \$24 billion in FY03, has been conducting error rate or quality control studies for several years. Their studies are undertaken by an outside contractor at a cost of about \$4 million.

This study undertaken by USDA is the Agency's first effort to quantify the cost of errors on the Rental Assistance Program. The Agency used most of HUD's parameters to develop a study similar in objective, but it was conducted by in-house personnel, on a smaller scale, and with a modified scope of work. The USDA study for FY2004 did not have the personnel, the time or the funding to conduct a study on the same level as HUD.

There were three areas that required investigation:

1. Errors and omissions that are primarily attributable to property management agents;
2. Whether income verifications support the income claimed by tenant; and
3. Whether USDA properly paid the appropriate subsidy requested by the borrower.

This review looked at a statistically valid sample of the universe of 539 rental assistance units in 321 properties in 48 States and jurisdictions.

The study was conducted by RHS field staff during the months of July – October 2004. Using a statistically-valid sample of rental assistance units across the portfolio, the National Office provided each appropriate State Office with a list of properties from their State, the number of rental assistance units to sample from each property, a sample survey instrument, and survey instructions, including directions to the website for data input. Field staff selected, at random, the rental assistance units to be surveyed. Field staff could either conduct the survey on-site at the property or obtain appropriate tenant files for the selected units. Staff then reviewed the file in depth to respond to the survey questionnaire.

For ease of tracking and tabulation, the survey instrument was on-line. This enabled the National Office to calculate results throughout the survey period and track progress by the field offices.

**Methodology of the Study**

To develop the sampling plan, the Agency reviewed work done by HUD in developing its sample. The Agency engaged the services of a statistician from USDA's Cooperative and Business Services who developed the sampling plan based on the universe of rental assistance units as of March 2004.

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The universe of rental assistance units in March 2004 was 269,352. The statistician recommended a statistically-valid random sample of units from a random sample of properties. The Agency identified 13,090 total properties with rental assistance units; the survey sample selected was 321 properties. The only parameter used to determine the eligible universe was the presence of USDA Section 521 Rental Assistance units. No other data element, such as location, size of property, number of units, availability of other rental assistance (such as Section 8) or type of property (family or elderly) was a consideration. The sample size of properties (321) consisted of 539 rental assistance units. Since occupancy changes and the number of rental assistance units at any one property can vary over time, the Agency determined that the best course for unit selection would be for State Offices to randomly select the units to be reviewed. Each property was assigned a number of rental assistance units to be reviewed (generally from 1 to 3 units).

The survey instrument was developed in conjunction with contractors who were familiar with HUD's improper payments study and who had experience with both HUD and USDA multifamily housing rental assistance programs. The survey instrument was a two-page questionnaire and was designed to be completed on-line. The website automatically downloaded input from the States and displayed discrepancies. The Program Support Staff from Rural Development maintained the website and provided the Agency with completed data for analysis.

Part 1 of the study asked State Office staff to complete the survey for the selected properties with their selected units. Part 2 of the study was conducted by the Office of the Deputy Chief Financial Officer and was intended to test payment of the subsidy request by USDA. The DCFO used the same sample of units (both properties and rental assistance units) as identified in the sampling plan. DCFO staff selected August 2004 as the payment month and asked State Offices to provide their office with the Project Worksheet submitted by the borrower and approved by USDA. DCFO staff then matched the month and property to their database to determine if the payment matched the borrower's request. In the sample of 539 units, only one unit had an error of \$0.85 and this error was caused by a field office ordering \$0.85 more than the borrower requested to finish off the RA agreement. Since the error was unrelated to improper payments, it was not considered in the calculation of the error rate for the program.

### **Analytic Methods**

The survey provided a substantial amount of data, some of which is still being reviewed. However, since the subject of the study was primarily improper payments, the Agency targeted and analyzed data to determine the 4 areas below:

1. Identify the types of errors and error rates.

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Errors were determined by reviewing documentation in a randomly-selected tenant's file and comparing results as shown by the property manager and those found in the file which was reviewed. Calculations that were reviewed in this manner were all related to income and rent determinations. Errors were also determined by reviewing file documentation for verification and for resolution to questions arising from the income calculations. Where insufficient documentation or lack of verifications came to light, respondents included this information in the narrative portion of the survey checklist. Respondents were requested to assign fault where errors were detected in the income and deduction calculation portion of the survey checklist. These "fault codes" were:

1. mathematical or transcription error
2. insufficient documentation
3. agent noncompliance
4. ineligible household or member or unit size
5. other

Some errors may have been the result of several fault codes, but respondents were limited to selecting one code.

The following table shows the percentage of fault, or reason, assigned to errors in income calculations and deduction calculations. For example, of all errors in income calculations, 24% of the time it was due to mathematical or transcription errors. Likewise, of all errors (in both income and deduction calculations), 48% of the time errors were due to insufficient documentation.

<b>Fault Indicators</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Income Calc	24%	45%	8%	1%	21%
Deduction Calc	5%	55%	15%	2%	24%
Total	18%	48%	10%	1%	22%

- 1 – Mathematical or Transcription Error
- 2 – Insufficient Documentation
- 3 – Agency Noncompliance
- 4 – Ineligible household or member or unit size
- 5 – Other

2. Estimate the national-level costs for total error and major error types.

National level costs for total error and major error types were estimated by following this process:

To determine the number of instances of errors:

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- determine the number of times the sample size occurs in the entire USDA multifamily portfolio of 269,352 Rental Assistance units / 539 units (sample size) = 500 times that the sample size appears in the universe of rental assistance units
- determine the number of cases and cost of each error in overpayment of USDA subsidy (or underpayment by tenant) in the sample (44 cases of USDA overpayment for a total of \$2,134 a month)
- determine the number of cases and cost of each error in underpayment of USDA subsidy (or overpayment by tenant) (33 cases of USDA underpayment for a total of \$1,214 a month)
- determine the rate of error per sample by adding the number of overpayment and underpayment cases, and then divide the total error cases by the sample.

Perform the calculation:

- Add number of errors for over- and underpayment = total error cases / sample size = rate of error or occurrence of error. For this study, the rate of error is 14.3%.
- To determine the error rate of the dollar impact, add the dollar amount of all errors (overpayment and underpayment), then divide by the total amount of FY2004 outlays for Rental Assistance. The program error rate is 2.59%.

**Error Rate Determination of Tenant Subsidy Payment**

Universe of Rental Assistance Units: 269,352 *				Total FY2004 RA Outlay	% Error Rate of \$ Impact vs. FY04 Outlay	
Sample of RA units: 539						
No. of Samples in Universe: 500	# Errors	% Errors	\$ Errors			
USDA Cases of Overpayment / Sample/Month	44	8.2%	\$2,134.00			
USDA Cases of Underpayment/Sample/Month	33	6.1%	\$1,214.00			
Total Errors per Sample/Month	77	14.3%	\$3,348.00			
Total Cost of Errors per Universe/Year				\$20.088 million	\$775.4 million	2.59 %

\* figures as of June 2004

3. Determine the extent to which households are over-housed relative to the Agency's occupancy standards.

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Respondents to the survey indicated that 38 units in the sample had tenants who were over-housed. This is 7% of the sample units and equates to about 19,000 units in the universe of rental assistance units. Some respondents explained the reason for overhousing. As part of the recommendations of this report, Loan Servicers will be required to follow-up with property managers to discern the reasons for over-housing to ensure that subsidy payments are appropriate.

#### **4. Estimate the total positive and negative errors in terms of RA subsidy.**

The survey asked field staff to analyze the tenant's file with the tenant certification and all accompanying documentation to determine if the subsidy calculation was appropriate for that tenant. Staff was asked to evaluate the following categories in reaching this conclusion:

- a. Number of bedrooms
- b. Number of persons
- c. Over-occupied unit
- d. Under-occupied unit
- e. Gross amount of wages
- f. Net income anticipated
- g. Interest, dividends, other income
- h. Gross income from SSI, pension, etc.
- i. Payments in lieu of earnings
- j. Periodic and determinable allowances
- k. Regular and recurring gifts
- l. Education grants, benefits, scholarships
- m. Armed forces pay
- n. Adoption incentive payments
- o. Public assistance
- p. Exempted income
- q. Deductions and eligibilities (dependents, elderly, handicapped, medical expenses, child care)

The staff reviewer then compared the property manager's findings and calculations with the reviewer's findings and calculations based on the information in the file. If there was a difference, it was noted in the survey. The plus or minus calculation was used in determining the tenant contribution towards rent and the subsidy paid for the unit, which in turn determined the amount of overpayment or underpayment of subsidy.

The survey discovered in 44 instances of the 539 units surveyed that overpayments to tenants totaled \$2,134. These errors occurred 8.2% of the time. In 33 instances, underpayments to tenants totaled \$1,214 and occurred 6.1% of the time. These errors, both positive and negative, occurred 77 times a month in the sample. This is 14.3% of the sample. The expectation is that in the universe of rental assistance units, errors in this

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calculation would occur 38,500 times a year at a rate of 14.3% of the universe. The total dollar impact of these errors, \$3,348 a month on the sample or \$20.088 million on a universe basis, is equivalent to 2.59% of the FY2004 Rental Assistance outlays of \$775.4 million.

**Quality Assurance Issues**

Quality assurance may be the most important aspect of a review of improper payments. Errors made by reviewers could result in skewed dollar figures and incorrect determinations regarding the extent of errors. While efforts to reduce errors should always be undertaken, quality-assured data is necessary to determine success or failure in achieving reduction rates.

The National Office did undertake some quality assurance tests in reviewing the data submitted by the field. The following are some findings from this review:

1. some reviewers input more units than required;
2. some reviewers input the same unit data more than once;
3. some reviewers input data incorrectly;
4. some reviewers did not assign fault codes in some cases;
5. the survey instrument did not include a field for utility allowance input.

As a result of these quality assurance issues, some data was purged from the database to ensure that the appropriate number of rental assistance units, from the appropriate properties, was used in the survey. Field staff input the utility allowance to the narrative field and the amount was picked up there for the tenant contribution calculation. To ensure integrity of the field review, however, no data changes were made to the database.

**Effect of Quality Assurance Issues on Report**

Overall, the effect of these quality assurance issues on the fundamental question of overpayment or underpayment is deemed negligible. A review of that portion of the survey indicates that reviewers generally were careful to note if supporting documentation existed to substantiate income claims and, where such documentation did not appear in the file or was unclear, appropriate notations and calculations were made on the survey instrument.

A number of the mistakes made in the survey could have been caught through oversight. Responses to a survey of this kind must receive the benefit of review by a supervisor before the data is input to the on-line system to ensure that the questions are answered correctly and appropriately.

When careless errors are allowed into the data, it tends to call into question other areas of the survey. For example, National Office review of the data discovered that some logical

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#### **IMPROPER PAYMENTS INFORMATION ACT COMPLIANCE REPORT OCTOBER 2004**

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arguments were answered incorrectly. For example, the survey asked three questions in a series: 1. Is wage matching permitted? 2. If permitted, can it be shared? 3. If it can be shared, is it being shared? If wage matching is permitted (“Yes”) and is shared with the property manager (“Yes”), then the logical answer to the middle question: “Can the data be shared?” must be “Yes”. Similarly, if the state does not have wage matching (181 “No” responses), then the accompanying 25 answers of “Yes” to the follow-up question “Are these reports shared?” cannot be correct. Likewise, when asked if these reviewed units were Section 515 Rural Rental Housing or Section 514 Off Farm Labor Housing, the four responses of “Yes” do not provide any usable information.

However, the data can be invaluable when produced correctly. For example, the survey included 16 rental assistance units in properties that are Off Farm Labor Housing (as opposed to Section 515 Rural Rental Housing). In those 16 units, 8 are in properties that have wage matching, are permitted to share the data with property managers and do share that data. Of the remaining 8 units, 6 do have wage matching and are permitted to share the data, but do not share with property managers. This kind of information requires follow-up to discern why the data, which can be shared, is not being provided to property managers so they can confirm, in this case, off farm labor housing income information.

As indicated previously, data from this survey is still being analyzed but already it has provided a wealth of knowledge on portfolio activities, general training needs, field staff skill levels, areas of concentration for particular training attention, and especially areas where follow-up is needed with borrowers. National Office staff is now developing an in-depth overview to provide to the States for their edification, training planning and issue resolution.

### **Findings and Recommendations**

This study was undertaken to determine the error rate of payments in the Rental Assistance Program and to answer the following questions:

1. Was there administrative error on the part of property managers?
2. Does income verification support the income claimed by tenant?
3. Did USDA properly pay the appropriate subsidy requested by the borrower?

The dollar impact error rate of payments in the Rental Assistance Program is 2.59% for FY2004. On a total program outlay of \$775.4 million, the Agency estimates that total dollar errors amounted to \$20.088 million. This consists of \$7.284 million in underpayments to tenants and \$12.804 million in overpayments to tenants. This is based on an analysis of the survey data that revealed overpayment and underpayment errors were made 14.3% of the time when calculating subsidy payments. The reasons for these errors were: insufficient documentation, unclear documentation, and mathematical and transcription errors on the part of borrowers and their management agents. Borrowers and property managers need to do a better job when certifying new or recertifying current

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residents. Similarly, field staff need to identify this issue when performing the supervisory visit and testing resident files.

The survey revealed that 90 percent of the units had all supporting documentation in the file for all income sources; 10 percent of the units (53 of 539) did not. As can be seen from the calculated dollar impact error rate, 97% of the total subsidy payments were correct subsidy payments.

Proper payment of the subsidy request by USDA occurred nearly 100% of the time. This can be attributed to the checks and balances instituted by the DCFO, which ensures that amounts paid match that requested by the borrower.

**Error Rate**

Type of Payment Error (Period)	Total Rental Assistance Program *
Gross Error In Subsidy Determinations (2004) Underpayment to tenants	\$7.284
Gross Error In Subsidy Determinations (2004) Overpayment to tenants	\$12.804
Gross Error (overpayment + underpayment)	\$20.088
Billing Error ( 2004) **	---
Total Error	\$20.088
FY 2004 Program Expenditures	\$775.4
Percent of Erroneous Payments	2.59%

\* all values presented in millions

\*\* DCFO reported error of \$0.85; not included.

In order to reduce the error rate on subsidy payments, improve Agency oversight and reduce the errors committed by borrowers and property agents, the Agency will direct the following:

1. Errors found in this analysis must be followed up by Loan Servicers within the next 9 months and achieve resolution.
2. The National Office must complete its evaluation and restructuring of the supervisory visit procedure. This procedure is currently cumbersome, time consuming, has the wrong focus and does not obtain adequate information for Loan Servicers to make informed decisions on the operations of a property.
3. State Offices must undertake training of field staff, borrowers and property managers in appropriate required documentation and follow-up with tenants and income-verifiers.

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4. The National Office must pursue access to the HSS New Hires data to be shared with State Offices.
5. Recognizing that the New Hires data access process may take some time, State Offices must participate with available wage matching programs and make such data available to borrowers if permitted. State Office staff must ensure that such shared data is used by borrowers and property managers.
6. National Office will reissue the Wage Matching Administrative Notice that expired April 30, 2002. States that currently have authority to implement wage matching and have not done so must implement wage matching procedures in their income verification processes and those States without State law prohibiting wage matching must be more aggressive in obtaining authority to use State wage data for wage matching.
7. The National Office will issue a Tenant Income Verification Administrative Notice that provides guidance to the State Offices. This Notice will address issues identified in this study, in reviews conducted by the GAO and in prior OIG audits.
8. The National Office must revise the survey instrument used in this study to capture more responsive information.
9. The National Office should employ an independent contractor to undertake this study in the future, which should be broader in scope and more comprehensive. In addition to identifying error rates in other work areas, the contractor should investigate deliberate tenant mis-reporting of income and the accuracy of borrower's subsidy request to the Agency.

**Appendices**

Sampling Methodology  
List of Properties Sampled  
Survey Instrument  
Instructions to Survey Instrument  
Letter to the Field re: Survey Instrument  
Data Tables from OCFO re: Erroneous Payments  
Wage Matching AN 3647

January 28, 2005

TO: All State Directors

ATTN: Community Programs Directors

FROM: Russell T. Davis      *(Signed by Russell T. Davis)*  
Administrator  
Rural Housing Service

SUBJECT: Servicing Requirements for Community Facilities Guaranteed Loans

The overall success rate for Community Facilities Guaranteed Loans continues to be very high. As of January 6, 2005 there were 12 delinquent loans which accounted for 2% of our portfolio. This reflects a favorable trend in delinquency rates and is reflective of your efforts to effectively manage this aspect of program operations.

We recognize that the primary responsibility for servicing rests with the lender, pursuant to the Lender's Agreement and reasonable and prudent lending standards. In monitoring our servicing activities over the past year, however, there are several areas that need emphasizing in order to strengthen our overall servicing efforts, maintain a high success rate in our portfolio and reduce the potential for losses in the program. These areas are also being addressed in regulatory changes now being developed.

**Loan Reporting By Lender**

The lender must report to the Agency the outstanding principal and interest balance on each guaranteed loan semiannually by use of Form RD 1980-41, "Guaranteed Loan Status Report". The Deputy Chief Financial Office (DCFO) will mail this report directly to the lender. The lender will complete the form and mail it back to the DCFO.

The Community Programs staff are to insure that the reports are submitted timely, that the reported loan balances are accurately entered into the Guaranteed Loan System (GLS); and, that a report has been submitted for all outstanding guaranteed loans in their state.

EXPIRATION DATE:  
February 28, 2006

FILING INSTRUCTIONS:  
Business/Community Programs

**Financial Reports**

The lender must obtain the financial statements required by the Loan Agreement. The lender must submit the borrower's annual financial statements to the Agency servicing office within 120 days of the end of the borrower's fiscal year. The lender must analyze the financial statements and provide the Agency servicing office with a written summary of the lender's analysis and conclusions, including trends, strengths, weaknesses, extraordinary transactions, and other indications of the financial condition of the borrower. Additionally, when applicable, the lender will require an audit in accordance with Office of Management and Budget (OMB) circulars (available in any Agency office). Community Programs staff will review the financial statements and lender analysis to insure appropriate remedial action is taken, if necessary. This is a very critical aspect of servicing our portfolio. Appropriate follow-up is necessary to assure this aspect of servicing is fully met.

**New Requirements for Defaulted Guaranteed Loans**

The lender must immediately notify the Agency when a borrower is placed on a watch list by the lender or other indicator of an intensive servicing situation, is 30 days past due on a payment, has not met its responsibilities of providing the required financial statements, or is otherwise in default. If a monetary default exceeds 30 days, the lender will arrange a meeting with the borrower within forty-five (45) days of the default to resolve the default. The lender will provide a written summary of the meeting and any decisions or actions agreed upon within ten (10) days of the meeting, to the Agency. The lender will continue to provide the Agency, at least on a quarterly basis, a written summary to include the cause of default, amount of default, and the remedial action necessary and being taken to cure the default. The lender will also report bimonthly using the "Guaranteed Loan Borrower Default Status" Form RD1980-44, until such time as the loan is no longer in default.

**DCFO Notification**

The State Director will notify the DCFO of any change in payment terms such as reamortizations or interest rate adjustments and effective dates of any changes resulting from servicing actions.

The State Director will also report quarterly to the National Office on all delinquent and problem loans, to include the cause of default, amount of default and the remedial action necessary to cure the default. The report will be in the suggested format shown as "Exhibit A," on the attachment.

**Bankruptcy**

The lender will inform the Agency immediately upon notification of a bankruptcy case and keep the Agency adequately and regularly informed, in writing, of all aspects of the proceedings, at a minimum, on a quarterly basis.

With your continued support and servicing efforts, we expect to see a continuing downward trend in the default rates and losses for the Community Facilities Guaranteed Loan Program. If you have any questions regarding the above, please contact Kendra Doedderlein, Senior Loan Specialist, Guaranteed Loan Division, Community Programs at 202-720-1503.

Attachment

***QUARTERLY DELINQUENCY REPORT  
FOR NATIONAL OFFICE***

<b><u>BORROWER ID NO.:</u></b>	<b><u>BORROWER NAME:</u></b>		
_____	_____		
<b><u>LOAN AMOUNT:</u></b>	<b><u>LENDER:</u></b>		
_____	_____		
<b><u>GUARANTEED PERCENTAGE:</u></b>	<b><u>LOAN BALANCE:</u></b>	<b><u>TOTAL AMT. DELINQUENT:</u></b>	<b><u>TOTAL MONTHS DELINQUENT:</u></b>
_____ %	\$ _____	\$ _____	\$ _____

*(If additional space is required to fully discuss the following items, please attach a separate sheet of paper.)*

**REASON FOR DELINQUENCY:**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**PLAN TO CURE DELINQUENCY:**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**ESTIMATED TIME  
TO CURE DELINQUENCY:**

\_\_\_\_\_

**OTHER RELEVANT INFORMATION:**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**COMMUNITY PROGRAMS DIRECTOR:**

\_\_\_\_\_  
*Signature*

\_\_\_\_\_  
*Date*

**STATE OFFICE:**

**STATE DIRECTOR:**

\_\_\_\_\_  
*Signature*

\_\_\_\_\_  
*Date*

January 31, 2005

SUBJECT: Florida Disaster Set Aside  
Reporting Use of Funds

TO: State Directors, Rural Development

ATTN: Business Programs Directors

An administrative decision was made by the Under Secretary to provide set aside funding, for a limited period of time, for Florida disaster designated counties for hurricane disaster relief for the Business and Industry Guaranteed Loan Program (B&I), Rural Business Enterprise Grant Program (RBEG), Intermediary Relending Program (IRP), and Rural Economic Development Loan and Grant Programs (REDLG). Any set aside funds not obligated by June 30, 2005, will revert back to the National Office Reserve.

When a project is obligated from either of the programs, please use the Type of Assistance (TOA) code respective to its unrestricted reserve. These projects should be obligated as normal via the Guaranteed Loan System (GLS). However, when projects are funded from this set aside, a copy of the updated Legislative and Public Affairs Staff (LAPAS) Project Information Sheet should be e-mailed to the National Office. Projects obligated using the B&I National Office Reserve set aside should be e-mailed to Andrea Patterson ([andrea.patterson@usda.gov](mailto:andrea.patterson@usda.gov)) and Letitia Turner ([letitia.turner@usda.gov](mailto:letitia.turner@usda.gov)) with a copy to Fred Kieferle ([fred.kieferle@usda.gov](mailto:fred.kieferle@usda.gov)). Projects obligated using the RBEG, IRP, and REDLG National Office Reserve set asides should be e-mailed to Maria Cartagena ([maria.cartagena@usda.gov](mailto:maria.cartagena@usda.gov)). To obtain a specific copy, go to <http://teamrd.usda.gov> and click on the LAPAS link.

A Request for Automation is underway in order that new TOA codes will be established for projects funded from this set aside. The National Office will manually track the use of these funds until such time that the Finance Office has automated the new TOA codes and reassign them in GLS. Finance Office will have no way of distinguishing which projects are obligated from the disaster set aside other than the manual tracking maintained by National Office. For this reason, it is imperative that the States submit Project Information Sheets expeditiously as projects are obligated from the set aside.

EXPIRATION DATE:  
September 30, 2005

FILING INSTRUCTIONS:  
Community/Business Programs

If you have questions, or need additional information, please contact Lori Washington, Specialty Lenders Division, (202) 720-9815 or e-mail [lori.washington@usda.gov](mailto:lori.washington@usda.gov).

Your prompt response to this reporting is appreciated.

*(Signed by William F. Hagy, III)*

WILLIAM F. HAGY III  
Deputy Administrator  
Business Programs